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No. 536

Supreme Court of the United States

OCTOBER TERM, 1939

ETHYL GASOLINE CORPORATION, EARLE W. WEBB AND JOHN COARD TAYLOR, *Appellants*,

v.

THE UNITED STATES OF AMERICA

ON APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK

REPLY BRIEF FOR APPELLANTS

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Because of some inaccurate statements of the record, because of constant distortion of the patent issues, and because of the circuitous reasoning prevalent in appellee's brief, we deem it desirable to file this reply brief.

I

THE VALIDITY OR SCOPE OF THE PATENTS IS NOT IN ISSUE

Neither the validity nor scope of the four patents owned by the Ethyl Corporation is in issue in this case. They were not questioned in the original petition (R. 1-9). They were not questioned in the lower court. And the Government professes not to discuss their validity "or even the value of these patents" in

this court (p. 56).[1] Instead, by constant misstatement of what the patents cover, by attempted analysis of the inventions, and by unwarranted and inaccurate references to their allowance by the Patent Office, the issues are confused. An understanding of these underlying facts is a prerequisite to decision. They can be simply stated:

A. Defendant's patents cover (1) lead-treated motor fuel, (2) the use of lead-treated fuel in a motor car, and (3) an improved anti-knock fluid. The first two inventions are of primary importance and are covered by the early applications. Not a single claim of these patents relates to an anti-knock *fluid*.[2] The *only* patents claiming an anti-knock *fluid* are the two later improvement patents (Appellants' Brief, pp. 10-12).

Appellee constantly and indirectly misstates these facts: It attempts by reiteration to persuade the Court that the only patent here involved is that on the fluid. Reference is made to "lead-treated gasoline", or "lead-treated motor fuel"—without disclosure that the patents cover these products—and emphasis is constantly misplaced on the use or sale of "patented fluid" alone.[3] If the only patents which

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[1] Unless otherwise noted, page references in this reply brief are to appellee's brief.

[2] Each claim in Patent No. 1,573,846 covering lead-treated gasoline claims "A fuel . . ." (R. 77-78). The three claims of Patent No. 1,787,419, the method patent, refer only to burning gaseous mixtures in the presence of vaporized metallic compounds (R. 84).

[3] Such misstatement occurs throughout the Government's brief. To illustrate: P. 10, the licensing system "is based on the premise that no one can manufacture, sell, or use [the patented] motor fuel which contains the patented fluid [through use of the patented method of combustion] unless authorized."

the Court need examine were those on the fluid, neither we nor appellee would be concerned with the others. In fact, the issues in this case turn on the two basic fuel and method patents and not at all on the improvement fluid patents.

We do not believe such tactics will succeed in obscuring what is fundamentally raised in this appeal. Perhaps the most enlightening correction would be to ask the Court to read the adjective "patented" wherever appellee uses the terms "lead-treated gasoline" or "motor fuel". See note 3, *supra*. Similarly, where appellee discusses the "marketing of gasoline" or "access to market", we are confident that this linguistic device for forgetting the two basic patents will fail. What is meant is the right to market the patented lead-treated gasoline and the licensed right to authorize use of the patented combustion method.

B. In a further effort to avoid the force of record facts, appellee for the first time on this appeal charges impropriety in the division of the original application, which was required by the Patent Office and which resulted in the technical division, into two patents, of the fuel product and combustion method claims *originally made* in the application. It is stated that there was merely "one important and novel contribution", namely, the fluid, and that "by an astute division of patent rights" claims for the lead-treated fuel and method of combustion were obtained (pp. 66-67).

This is a gross misstatement.

First, the Court should know that the formal division into two patents of the fuel and method claims originally made was specifically *required* by the Pat-

ent Office. The file wrapper[4] shows that the applicant objected to the required division lest it lead to double patenting; that this question was twice appealed to the Examiner of Classification (the reviewing officer), and that division was required on the ground that two separate inventions requiring separate examination and ultimately separate patents were contained in the application. (Incidentally, the administrative decision on this matter showed that these inventions were so novel that not a single reference could be cited against the claims.) The charge, which appellee makes, that the licensing system, which has made these inventions available to every motorist, should be deemed illegal because of improper and "astute division of patent rights" is manifestly unfounded.

Second, the question as to the scope of the patents or the propriety of their allowance n t only is inconsistent with the Government's position on this appeal (p. 56), but is also without foundation in law. The division of patent applications and their examination for issuance of patents is an administrative matter conferred upon the Patent Office and controlled by its rules. (Compare Rule 41. See also Rivise, "Patent Applications" §§ 187-204.) Appellee's belated endeavor to interject this foreign issue,

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[4] It was stipulated by letter in advance of trial that if the validity of these patents was disputed by the Government, the appellants would be entitled to offer the various file wrappers. In view of the contentions now made for the first time in appellee's brief, we therefore feel justified in referring to this material.

in support of its attempt to treat this case as involving only a patent on the fluid, must be rejected.

Third, neither of the patents concerned in the divided application related to fluid (*supra*, pp. 2-3). And the discovery that the addition of halides prevented fluxing, though only an improvement, was in itself an important invention upon which the fluid patents are deservedly allowed. (See Appellants' Brief, pp. 11-12.)

II.

The right to license jobbers

With the facts as to the patents clear, the fallacies in appellee's argument on the patent law become apparent. In its Point I, pp. 27, 33-46, the Government makes two contentions: First, that the licensing system restrains trade because defendant thereby determines "who shall be allowed to enter the market"—*i. e.*, who shall deal in defendant's *patented fuel* and be authorized to license others to use the *patented method*. Any valid patent or patent license restrains trade. The question is whether the patents and licenses are valid. That question is not decided by simply forgetting the patents and licenses, and treating the case as though neither patents nor licenses were involved.

Second, the Government contends—again conveniently neglecting the patents—that defendant restrained trade by compelling jobbers to maintain refiners' resale prices. This question, as to which the lower court found no case has been made, is fully covered in our main Brief, pp. 34-35; and we shall briefly examine the appellee's argument, in demon-

strating that defendant had not in any way abused its clear right to license jobbers, *infra*, pp. 12-15.

In Point II, appellee takes the extraordinary position that defendant under its patents has no right or power to control the marketing of its patented fuel or the use of its patented combustion method, by licensing either refiners or jobbers (p. 47). In the first place, there is here the same fundamental error in the assumed premise that only a patented *fluid*, and not a patented *fuel* and patented combustion *method*, is involved[5] (pp. 48,-50-51). Thus appellee elaborately argues that with the sale of a patented product, patent control usually ends. We agree. But these licenses, as we point out in our main Brief (pp. 47-61) do not rest on the fluid patent but on the fuel and method patents. And as we there show, without the particular licensing system and license requirements predicated on those patents, these inventions could not have been safely and widely made available to the motoring public.

The Government leans heavily on the fact that defendant gets its composite financial return on the patents in the sales price of the patented fuel (pp. 47, 79). This is immaterial. The sales contract and refiner licenses are contained in a single instrument—which covers all four patents—and there is no warrant for assuming that only return on the improvement patents is obtained. For convenience,

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[5] *E.g.*, p. 48. "Having chosen to exploit its patents in this particular way, can appellant sell the patented fluid and at the same time control the subsequent marketing and use [according to a separately patented method] of the [patented] motor fuel containing the patented fluid?" Completely to change the issues by omitting the bracketed words, as appellee has done, does not contribute to the decision in this case.

defendant gets its return in one payment. Can it be seriously contended that this payment is not thereafter reflected in the sales price of the patented lead-treated gasoline? Could the Government contend that defendant may not equally apply its margin above manufacturing costs toward the amortization of each of these patents? Carried to its logical conclusion, appellee's argument would mean that any patentee owning several patents who took a single royalty would impair his rights. Or that the owner of a basic patent who later granted licenses under an improvement patent without further royalty would be acting beyond the scope of his later patent. Or that the grant of a limited development license free of royalty would foreclose all future charges. Where a group of commonly owned patents are used for the commercial development of a series of inventions, the manner in which the patentee levies a reasonable royalty is immaterial.

Still pursuing its fundamental fallacy that the only invention was that of an anti-knock fluid, the Government next argues (pp. 58-70) that exercising rights under the fuel and method patents is somehow an attempt to control "subject matter which lies outside the legal scope of that patent privilege" (pp. 58-59). We confess our inability to follow this reasoning. How the use of the patent monopoly, conferred by a patent of unquestioned validity, can be "outside the legal scope of that privilege, even though included within the claims made in the patent" (p. 59) is difficult to see.

Nor do the cases discussed at length by appellee illuminate its position. In each of them, as pointed out in our main Brief (pp. 54-55, note) the patentee

owned a patent on a product or a process but not both. In each, he attempted to utilize the patent on what he had to secure a monopoly of what his patent did not cover. Here defendant has patents on both the product, lead-treated fuel, and the method of combustion in which it was used.[6] The citations are inapposite. Either defendant has patents on lead-treated fuel and the combustion method and can exercise rights conferred by such patents, or such patents are invalid or have been destroyed. To argue that defenedant never had the power to license because its unquestioned patents cover more than appellee would like to have had them cover in this case, is simply to argue in a circle.

Ultimately confronting the record facts, appellee is driven to the charge, already discussed, that these basic patents were obtained through an improper division of the original application. We have already shown that this contention is unfounded in fact, unwarranted in law, and distorts both the dates and claims of the patents. Moreover, appellee's illustrations (pp. 67-69), apart from being a couvert attack on patent validity which it has throughout admitted, confuses both Patent Office procedure and patent law. No elaborate treatise is necessary in reply. It is axiomatic that the function which a patented product performs or the result it achieves is not in itself

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[6] The citation and quotation, on p. 65, from *Motion Picture Patents Co. v. Universal Film M'f'r'g Co.*, 243 U. S. 502 at 519, is not in point. For not only did that case concern the validity of restrictions after the sale of a patented product alone (without coexisting process patents), but also the restriction discussed derived, its force not from any license but merely from a notice attached to the patented product.

patentable, *e. g.*, closing a coffin, creating sound, moving a piston, etc. (p. 68). *Holland Furniture Co. v. Perkins Glue Co.*, 277 U. S. 245, 257. In the present case, the combustion *method* can be practised by introducing a volatile metallic compound into the engine in any fashion. (See Appellants' Brief, p. 12, note.) This was a separate, novel invention allowed as patentable. The product, lead-treated fuel, consisting of the combustion of soluble tetraethyl lead and gasoline was likewise new and a separate patent for it was insisted upon by the Patent Office. Neither allowance is here in issue.

Thus, on the right of defendant to license jobbers under its patents, appellee's diverting and ingenious efforts to present some case other than that before this Court must be rejected. They are predicated either upon a total disregard of the patents, Point I, or, in Point II, upon an unsuccessful attempt to confuse the patent law questions by limiting consideration to the fluid patents alone, by arguing that the unquestioned claims of the fuel and method patents are beyond the scope of the patent monopoly, or by insisting contrary to the facts and through couvert attack that these basic patents were improperly allowed by the Patent Office. We respectfully refer the Court to the discussion of the right to license contained in our main Brief (pp. 47-54).

III

The reasonableness of the license conditions

Appellee in its Point III attempts to meet one of the fundamental issues in the case: Whether the license conditions contained in the jobber licenses were reasonably incident to the commercial development of

The prevention of adulteration and dilution of the patented fuel is sought to be minimized by appellee in equally tenuous fashion. The contention is that patentee has no interest in the reputation of the patented product but that this is the refiner's interest alone. The recurrent fallacy that defendant has a patent only on the fluid alone is repeated (p. 79). And counsel's *a priori* assumptions (p. 81) as to what might happen in the absence of license prohibitions against adulterations and dilution are made the basis for the unrealistic suggestion that defendant, whose revenue is obviously dependent upon the volume of the patented fuel sold, has no interest in its quality.

IV

Alleged price maintenance and exclusion of a few price cutting jobbers

Appellee seeks to support the decree below by substituting in support of it a basis other than that used by the lower court. To do so rejects the specific finding of the District Court that no case of price maintenance has been made out on this record (R. 60). We submit that the unwarranted selection and rejection among the stipulated facts, which the Government has made (pp. 39-40) cannot be accepted.

This portion of the stipulation is fully analyzed on pages 34-35 and 60-61 of our main Brief. Two examples of the fashion in which the record has been distorted by appellee should suffice. A sentence in the "Field Representative Manual" of the defendant corporation is lifted wholly out of context and given a meaning which it does not have. Compare the

quotation from R. 183 with "Standardization" and "Piping Layouts" on R. 184.

Next, despite the unequivocal stipulated fact that jobber licenses were not canceled because of any failure to maintain the policies, practices, and prices of the refiners, appellee misstates the record on this issue. It recites that in a few instances defendant "has gone so far as to refuse a new license to a jobber who wished to change his source of supply because he had not maintained the policies, practices, and prices" of refiners (p. 40). This misstatement is alleged to be based on Paragraph 22 (R. 38-39) of the Stipulation. In fact, it represents an improper rewriting of two sentences in that paragraph, and its inaccuracy is clearly shown by Paragraph 24 (R. 39) in which it is made perfectly clear that in the instances in question there was controversy as to whether the contract between the refiner and the jobber had been terminated. See Appellants' Brief, p. 32, note.

Appellee next asks this Court to set aside the finding of the lower court on an argument embodying a complete *non sequitur*. It is conceded that defendant never stated that it would cancel jobber licenses because of price cutting; that there has been a great deal of price cutting, and that defendant never canceled a license once it was issued (R. 37). The lower court specificially so found (R. 51, 60). The Government argues, however, that because a few jobbers without warrant believed that in order to hold their licenses they would have to maintain prices, defendant created "this frame of mind without making public announcements and without actually canceling licenses" (pp. 42-43). On this basis, an at-

tempt is made to bring the present case within the rule of the *Beech-Nut* case.

We pass the obvious difficulty which the Government faces on the facts in seeking to prove circumstantially that prices were maintained through means of the jobber licenses when it is stipulated that they were not.[8] For it seems clear that no case of unlawful price maintenance through *coercion* can possibly be made out where it is conceded that defendant did not exert any coercion, that (unlike the *Beech-Nut* case) it never canceled a license because of price cutting, and that in fact "there has been and is a great deal of price cutting on the part of licensed jobbers" (R. 60).

We submit that on the issue whether these jobber licenses have been used, wholly beyond their specific conditions, to secure maintenance of refiners' prices, the finding of the lower court cannot be disturbed.

On the issue whether the occasional refusal of a license to jobbers who had a record as notorious price cutters constituted an unlawful restraint of trade, we need add little to our discussion on pages 61-71 of our main Brief. It may be helpful, however, to point out that the Government's short discussion of this point (pp. 84-91) rests upon the persistent assumption that the patents cover only a patented fluid (p. 87), that defendant's sole interest is in the "sale

[8] In view of the Government's ingenious attempt to argue that the mere existence of defendant's licensing scheme resulted in country-wide price maintenance of refiners' prices, it is interesting to note that in *United States* v. *Socony-Vacuum Oil Co.*, October Term, 1939, Nos. 346-347, recently argued, the Government contended that prices in one important marketing area were maintained by action having nothing whatever to do with these licenses. See Government brief in that case, pp. 29-34.

of the patented fluid" (p. 88) and that the defendant has no interest in the patented motor fuel. There is further some talk about *a priori* arguments and the suggestion that the volume of gasoline sold increases with lower prices (p. 89). Appellee completely disregards the fact that lead treatment is an element of cost (though it calls attention to defendant's profits), and that the effect of continuous price cutting on the sale of the patented fluid would be direct and important. For unless the cost of lead treatment can be recouped, there will be a strong commercial impediment to use of defendant's patents. As we have pointed out, defendant in a very limited number of instances took the reasonable view that it was desirable not to permit such dealers to deal at all in its patented fuel. We have likewise demonstrated the relationship between consistent price cutting and the danger of dilution, substitution or adulteration of the patented fuel. Appellants' Brief, p. 69.

Finally, appellee suggests that the initial exclusion and refusal to deal with a few notorious price cutters is the legal equivalent of price maintenance (p. 90-91). We are satisfied that an examination of the discussion of this question and the cases cited in our main Brief (pp. 63-67) will readily indicate the hollowness of this argument.

V

The scope of the decree

In our main Brief (pp. 71-80) we demonstrate that even assuming that defendant could not justifiably exclude as distributors of its patentable fuel a small group of notorious price cutters, the decree of the lower court goes far beyond anything required to

prevent such exclusion and its complete abrogation of the jobber licensing system is wholly unwarranted and unjustified. Appellee insists that the decree below was warranted principally because it disagrees with the lower court's finding that there was no price maintenance. Apart from this, the argument is that the existence of the jobber licensing system offers opportunity for price maintenance (p. 93). Any patent license system might, outside and beyond its specific conditions, be subject to abuse. Obviously, appellee's argument proves too much, and under it any patent licenses, no matter how proper their terms, would fall. Consequently, since defendant has the right to license jobbers, and since misuse of the necessary and reasonable conditions in its jobber licenses has not been established, the lack of justification for abolishing the entire system is manifest. As we point out in our main Brief, the effect of such abrogation will seriously impair defendant's future use of these patents.

Respectfully submitted,

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